

## **CORPORATE CHARACTERISTICS, AUDIT FEES AND THE NIGERIAN CORPORATE ENVIRONMENT: A PANEL DATA APPROACH**

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**ABSTRACT:** *Around the globe, corporate units are concerned about what informs the fees charged by audit firms for audit services. Many factors have been advanced by extant literatures but limited discussion exist on the relationship between “audit firm and client” characteristics especially in Nigerian corporate sector. The objective of this study is therefore to determine the influence of corporate socio-economic characteristics on audit fees charged by distributive firms listed on the Nigerian Stock Exchange. Panel analysis was adopted for this study. Secondary data, been extracts from Annual Reports and Accounts of sampled firms were employed for this work. Audit fee and corporate socio/economic characteristics proxies by firm size, leverage, firm type, board size, profitability and board independence were analyzed using Panel regression. The study found a positive significant effect of Firm Size (FS), Audit Firm Type (AUDTYPE), Board Independence (BDIND) and Profitability (PROFIT) ( $\beta = 17.2545; 7862.6861; 84246.5114, 0.0005, \rho > 0.0000$ ) while Leverage (LEV) and Board Size (BDSIZE) had negative effect on Audit Fees ( $\beta = -19.5350, -2333.0214, \rho > 0.0000$ ). The study recommended that audit clients of distributive firms should focus on the management of the relationship between Asset and Liability i.e. leverage such that the current profitability tempo could be maintained and offset audit fee without any significant negative effect on audit quality.*

**KEYWORDS:** audit fees, corporate characteristics, audit firm characteristics, corporate environment

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## **INTRODUCTION**

Subsequent to the forerunner work of Simunic (1980) on the pricing of audit services, significant progress has been made in understanding the factors which are contributory to determining audit fee both at the international and national levels. Investors in firms commit

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their funds in expectation of substantial returns in the form of wealth maximization and will only be motivated to retain their shareholding when guarantee abound that returns will flow-in indefinitely perhaps in a progressive manner. To an average investor, profit/wealth maximization entails committing little to derive maximum returns and anything capable of defeating this singular motive must be avoided completely. Audit fees paid to the auditors, as a product of governance prerequisite, constitute an expense to the organization and will reduce eventual profit generated (Rustam, Rashid and Zaman, 2013). However audit fee, being a cost or charge on the fortunes of companies the world over, has been a subject of serious concerns among scholars and other interested stakeholders to the extent that, determining its constituent becomes so imperative that organizations today strive to minimize their cost in order to maximize their benefits for greater potentialities. Determining what now constitute reasonable economic audit fee has been a source of worries among interested stakeholders.

Little wonder that Al-Harshani (2008) stated that audit pricing services have been a central issue that motivates many researchers to examine the determinants of audit fees. The need to also uphold a balance between minimum audit cost, audit quality and standards has also led the foray of academic researches into the world of audit fees determination. The study of the determinants of audit fees using different parameters has been seriously researched into by scholars in the past with many broadly investigating such determinants within and outside Nigeria. Wu (2012) and Wu (2012) studied internal control and audit fees in the US, Wu (2012) in Korea, Harjinder (2010) in Australia, and Hutchinson (2010) in Hong Kong and so on. Some researchers also studied the impact of corporate governance on audit fees. They include, Griffin, Lont and Sun (2008) in the US, Lee (2016) in Australia, Wu (2012); Wu (2012), Johl, Subramaniam and Zain (2012) in Malaysia and Abdulmalik and Ahmad (2015) in Nigeria.

A Host of other scholars like **Error! Bookmark not defined.** (2007) in Ghana, Obeten and Cohen (2014) in Nigeria also delved into corporate governance and performance. Internal control and firm performance was also researched by Simunic (1980) in Pakistan and Arrunada (1997) in Sri Lanka. Hogan and Wilkin (2008) in the US and Newby (2007) in Australia also studied audit fee and audit quality. In Nigeria However, authors like Soyemi and Olowookere (2013), Urhoghide and Izedonmi (2015) have broadly emphasised the determinants of audit fee using variables such as audit firm characteristics, audit client characteristics and corporate governance but in other sectors of the economy. To this end, and despite the extensive work so far conducted in the area of audit fees determinants, none of these previous studies has its focus on the influence of corporate socio-economic characteristics on audit fees in the listed distributive firms in Nigeria. The current research work is therefore designed to bridge the gap in literature by evaluating the corporate socio-economic characteristics influence on audit fees among quoted distributive firms in Nigeria

### **Statement of the Problem**

Pricing of audit services have also occupied the concerns of many researchers to examine determinants of audit fees in corporate set up (Al-Harshani, 2008). Organizations are today concerned about making sure that costs are put at its barest minimum for the purpose of ensuring that fortune continues to increase since it has been established that cost and fortunes i.e. expenses and profit are inversely related.

Most firms and other interested participants in Nigerian project have, over the years, been debating on the probable existence of some socio-economic characteristics that influence audit fee within corporate entity particularly in the distributive sector. Findings in most cases are not yet sure of the exact variables and the severity of their impact. For instance leverage, equity, profitability, and firms' asset base etc. may influence the costing sensibility of external auditors, the extent of their influence has not been comprehensively revealed.

However, the question that requires an answer in the present studies is "what corporate social characteristics influenced audit fee in Nigeria distributive firms"? To this end, this study aims to evaluate those corporate socio-economic characteristics/factors that influence audit fees charged on firms within the distributive sector of Nigeria economy and what relationship exist between these socio-economic characteristics and audit fees charged by the sampled firms in the study area.

The Issue of corporate characterized audit fee and Nigeria corporate environment required further Investigation which has not been determined by any researcher within or outside the Nigeria context. This statement of problem is to be examined through panel data approach methods. The concern is not only to the management but also to the growth of the nation. The above statement of problem are been justified to be conducted for more academic research to bring more about the reliable ideas and findings on the study.

### **Research Questions**

Based on the problem statement above, this study addresses the following research questions:

- i. To what extent does corporate character affect audit fees in Nigerian distributive sector?
- ii. To what level does corporate social characteristics influence audit fees in Nigeria?

### **Purpose of the Study**

The main purpose of this study is to investigate the corporate characteristics, audit fee, and the Nigerian corporate environment, using panel data approach. Specifically, the study will investigate:

- i. The impact of corporate economic characteristics on audit fees in Nigerian distributive sector.
- ii. The impact of corporate social characteristics on audit fees of selected firms.

### **Hypothesis of the Study**

**H<sub>01</sub>:** Corporate economic characteristics have no significant impact on audit fees in the Nigerian distributive sector.

**H<sub>02</sub>:** Corporate social characteristics have no significant impact on audit fees in the Nigerian distributive sector.

### **Significance of the Study**

The finding of this paper would be of benefit to the principal-agent relationship. The demands for external audit fees are directly related to the fact that it is the directors (the agent who prepared the financial statements, which mainly focus on cost only. This study would give insight towards setting of adequate audit fees. The study contributes to the audit literature review as it provides additional empirical framework on the effect of audit fees on corporate environment. The study also reflects the corporate characteristics of Nigeria corporate environment. This will be useful to the stakeholders and all regulatory bodies as it provides evidence to the relationship between audit fees and the corporate environment reform in formulating the code of corporate government for listed companies in Nigeria.

## **LITERATURE REVIEW**

### **Concept of Audit Fees**

Audit fee has not been clearly defined in any of the International Standards on Auditing (ISAs), the Nigerian Auditing Standards (NSAs), the International Federation of Accountant (IFAC) Code of Ethics for Professional Accountants, the Institute of Chartered Accountants of Nigeria (ICAN) Scale of Professional Fees and other relevant laws. Nevertheless, the aspects regarding audit fees have been extensively analyzed from the point of view of their effects on auditor's

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independence Arrunada (1997) and quality of accounting information (Sundgren and Svanstrom , 2013).

El-Gammal (2012) defined audit fee as the amounts (wages) charged by the auditor for an audit process performed for the accounts of an enterprise (auditee). According to Urhoghide and Izedonmi (2015), audit fee refers directly to payments made to the auditor that relates directly to the audit function. Generally, the audit fee should cover audit costs and provide a reasonable profit and by implication can be seen as a combination of two items; audit cost and profit or auditor's reward. Audit fee is the cost incurred by the company to pay a public accounting firm in order to audit the financial statements of the company (Urhoghide and Izedonmi (2015)).

Similarly, the ICAN's Scale of Professional fees while indicating that practitioners charge ridiculously inappropriate audit fees yet affirm that a reasonably remunerated firm should deliver first class service for the needs of private and public sectors clients, regulatory authorities and the general public. The question as to why the same volume of work will attract different charges by auditors is what borders so many interested parties. Undoubtedly, fees charged by auditors can be a function of some corporate factors; either social, economic or otherwise i.e. leverage, profitability, audit firm status and firm size.

### **Corporate Social / Economic Characteristics and Audit fees**

Series of study have been conducted to establish the relationship between audit fees and corporate socio-economic characteristics within and outside Nigeria. This study has However chosen to adopt, leverage, profitability, board size, board independence, status of audit firm and size of the firm as variables to proxy for corporate socio/economic characteristics.

Authors like Hay, Knechel and Ling (2006); Lee (2016); Antle, Gordon, Narayanamoorthy and Zhu (2006) and Zaman, Hudaib and Haniffa (2011) found that positive relationship exist between audit fee and firm size. Arrunda (1997); Bedarad and Jonstone (2004); Arshad, Satar, Hassain and Naseem (2011) also found positive relationship between audit fee and leverage. Furthermore, Arshadet *al* (2011); DeAngelo (1981b); Zamanet *al* (2011) found a positive relationship between audit fee and firm size while Urhoghide and Izedonmi (2015); Soyemi and Olowookere (2013) also found positive relationship between audit fees and profitability. The empirical implication of this is simply that an increase in one will lead to a proportionate increase in the other and vice versa. However, this study has tried to establish what kind of relationship exists between audit fees and the probable corporate socio-economic variables as it relates to Nigeria distributive firms.

## **Theoretical Review**

The researchers can clarify the theoretical review for the relationship between corporate characteristics, audit fees and the Nigerian corporate environment through the following theories.

### **Agency Theory**

The agency theory Holds that the demand for audit has been motivated by the need to manage agency conflict. Accordingly, in an agency setting, information asymmetry between a principal (Stakeholder) and an agent (Management) creates a moral hazard problem which is the concern that an agent will pursue his/ her own self-interest at the expense of the principal (Arrufada, 1997; Watts & Zimmerman, 1983). Agency theory predicts that agents and principals will recognize that it can be mutually beneficial to reduce the moral hazard and will devise arrangement to align their self-interest. One such arrangement is the independent audit, which provides a monitoring device designed to improve information about client performance and reduce information asymmetry.

The greater the agency conflict between managers and stakeholder, the greater the agency costs, and the greater the demand for audit identified as high quality (or of high perceived quality) (Palmrose, 1984; Lee (2016);El- Gammal (2012), 1992; Arrufada (1997) et al, 1995; Wu (2012), Wu (2012); Simunic (1980), Bessong&Ujah, 2015; Simunic (1980), Bedard and Johnstone (2004)&Bessong, 2012; Bedard and Johnstone (2004)&Simunic (1980), 2012; Bessong&Simunic (1980), 2012; Wu (2012), Akpan, &Simunic (1980), 2012). De Angelo (1981) argues that auditors should specialize in supplying a certain level of audit quality. Therefore, if a client wishes to change audit quality, they must change auditors.

### **The Deep Pocket Theory**

Simunic (1980) pointed out that a positive relationship is assumed to exist between audit quality and audit fees. Many researchers theorized that if larger firms are charging higher fees, it reflects the higher quality of their audit services. The theory proposes that the increased Hours provided by brand name auditors reflect greater productive activities (evidence acquisition) in providing higher levels of assurance (higher quality to clients). The theory raises a questionable issue thus; are fee premium due to monopolistic behavior of branch auditors or evidence of greater monitoring efforts?

The deep pocket theory also affected an issues relating to low-balling which is the pricing of internal audits significantly below cost and Ho (2013)w this affect the supply of audit quality

ad audit fees (AICPA, 1978). The theorists argued that low balling could lead to true and budget pressures as well as make difficult for auditors to refuse accounting concession because of the threat of termination. This could impair auditor independence and contribute to lower quality audits (Lee 2016); Joshi and Bastaki (2000)&Mukherji, 1994; De Angelo, 1981).

The practice of auditing in most countries has significantly been affected by this theory. This is no more so since, the brand name audit firms in the country would charge high fees and commit high level of resources and may not render such higher services From another perspective in Nigeria, low balling has become a common practice especially for small audit firms who will underprice audit engagement to ensure that they are able to maintain their earnings and operate their firms.

### **Empirical Review**

Ho (2013) and (2019), a study undertaken in New Zealand, internal auditors were required to evaluate the importance of their functions in connection with audit engagements. The findings of the study were true professions exist although it does not dominate auditors with high level of experience and are in public practice have significant influence over the management. Additionally, if the auditors have accountancy training, their influence level is high due to the fact that they are members of accountancy professional bodies. These findings are supported by Obetan and Ocheni (2014) and Obetan and Ocheni (2014) (1983), Cooper et al. (1966) and Gramling (1997), who had portrayed reservations over the effectiveness of the role of internal auditors.

Hassan and Naser (2013) conducted a follow up study in New Zealand to determine whether the auditor influences his role. This involved checking on internal auditors' objectivity while working with the management so as to be able to report on their performance. The findings of the study were that for those internal auditors who best balanced their role, they had external professional status and their organizations had both.....

## **METHODOLOGY**

### **Research Design**

Panel design was adopted for this study due to the nature of data employed. Distributive firms identified, as quoted by the Nigerian Stock Exchange (NSE) were 69 out of which 23 were sampled through the use of stratified random sampling technique. The main data source in this study is secondary been an extract from published/audited financial statements of the 23

sampled distributive firms from 2008 and 2018. All data collected are processed using E-view 10.

The study dependent variable is audit fees whereas independent variable is social and economic factors such as Board Size (BDSIZE), Board Independence (BDIND), Audit Type (AUDTYPE), Firm Size (FS), Leverage (LEV) and Profit (PROFIT).

### Model Specification

The research model is as follow:

$$\text{Audfee}_{it} = \beta_0 + \beta_1 \text{FS}_{it} + \beta_2 \text{LEV}_{it} + \beta_4 \text{Profit}_{it} + \varepsilon_{it} \dots \quad \dots \text{Eq (3.1)}$$

$$\text{Audfee}_{it} = \beta_0 + \beta_1 \text{BDSIZE}_{it} + \beta_2 \text{BDIND}_{it} + \beta_3 \text{Audtype}_{it} + \varepsilon_{it} \dots \quad \dots \text{Eq (3.2)}$$

The variables adopted for this study are described and measured thus;

**AUDFEE** - Audit Fees in relation to audit function.

**BDSIZE** – Measured as the number of directors on the board

**BDIND** – Measured as the ratio of executive to non-executive directors on the board.

**AUDTYPE** – A dichotomous value ‘1’, for firms audited by a Big4 and ‘0’ if otherwise.

**FS** - Measured as the natural log of Total Asset.

**LEV** – Measured as Total Assets divided by Total Liabilities.

**PROFIT** - Measured using Net Profit after tax (PAT).

## RESULTS AND DISCUSSION

### Panel Unit Root Test

Testing for the existence of unit roots is a principal concern in the study of time series models. The presence of a unit root implies that the time series under investigation is non-stationary, while the absence of unit roots shows that the stochastic process is stationary. More often than not, most time series data are not stationary at certain significant levels as some variables may be too small or large to the extent that they never return to their expected mean. This has necessitated the need to carry out unit root test or stationary test whenever dealing with time series data.



Ho (2013) however, in an attempt to test for the stationarity of the panel variables; this study employed Levin, Lin and Chu test and the result is as shown in table 4.1. The decision rule adopted here is that if the probability value of Levin, Lin and Chu test is lesser than 5% critical value, then it is adjudged that the tested variable is non-stationary. If on the other hand, the probability value of the Levin, Lin and Chu test is greater than 5% critical value, then it is adjudged that the tested variable is stationary. Hence, the purpose of the panel unit root test is to know if the variables are I (0), I (1) or I (2). Invariably, the results show that all the variables are stationary (no unit root) at the levels except Board Size (BDSIZE) which is stationary at first difference i.e. integrated of order one I (1).

**Table 4.1 Stationarity Result for Levin, Lin & Chu Test of the Study Variables.**

Variables	Level	1 <sup>st</sup> Difference	2 <sup>nd</sup> Difference	Order of Integration
AUDFEE	- 2.03811**	-8.47051		I(0)
BDIND	-2.31438***	-10.2714		I(0)
BDSIZE	-0.53490	-9.79751***		I(1)
FS	3.84172***	-15.6799		I(0)
LEV	12.5678***	14.6910		I(0)
PROFIT	3.78160***	13.0561		I(0)

Source: Author's Computation, 2018 (E-views 10)

(\*\*\*) indicates significance at 1% level and (\*\*) indicates significance at 5% level.

### **Analysis of the Corporate Economic Characteristics Influencing Audit Fees in the Nigerian Distributive Firms (Random Effect)**

In order to determine the Random Effect (RE) nature of the variables used for this study, Table 4.2 presented the result of RE Model in which it was shown that there is positive relationship between Firm Size (FS), Profitability (PROFIT) and Audit Fees while there exists negative relationship between Leverage (LEV) and Audit Fees.

Coefficient of determination ( $R^2$ ) 0.652140 revealed that the independent variables were responsible for over 65% of total variation in the dependent variable (Audit Fees) leaving the

balance to other variable not considered in the model. On this note, it is worthy to say that the model is of good fit even though; it was not a robust one. The F-stat 105.4528 showed the joint significance of the variables used in the model and concluded that they were significant at 1% level of significance. The study concluded that the alternative hypothesis should be accepted which says that the dependent variable significantly influenced audit fees. Above all, the Durbin Watson (DW) with the value 1.842631 indicated that serial correlation was absent from the model making the model a reliable model.

**Table 4.2: Corporate Economic Characteristics Influencing on Audit Fees in the Nigeria Distributive Firms (Random Effect Model)**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
FS	48.75648	11.50337	4.238452	0.0000
LEV	-20.88844	18.89508	-1.105496	0.2701
PROFIT	0.000573	6.34E-05	9.041278	0.0000
C	-19.37847	4.935374	-3.926445	0.0001
Effects Specification				
			S.D.	RHo(2013)
Cross-section random			17243.71	0.8383
Idiosyncratic random			7574.568	0.1617
Weighted Statistics				
R-squared	0.652140	Mean dependent var		3721.682
Adjusted R-squared	0.645956	S.D. dependent var		12868.52
S.E. of regression	7656.979	Sum squared resid		1.32E+10
F-statistic	105.4528	Durbin-Watson stat		1.842631

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 Prob(F-statistic) 0.000000
 

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**Source: Author's Computation (2019)****Table 4.3: Corporate Economic Characteristics Influencing Audit Fees in the Distributive Firms in Nigeria (Fixed Effect Model)**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
FS	4241.882	1160.006	3.656777	0.0003
LEV	-163.2595	167.5658	-0.974301	0.3311
PROFIT	0.000571	7.76E-05	7.352909	0.0000
C	-10828.15	8149.881	-1.328627	0.1855

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 Effects Specification
 

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Cross-section fixed (dummy variables)

R-squared	0.946384	Mean dependent var	27049.69
Adjusted R-squared	0.939517	S.D. dependent var	30799.32
S.E. of regression	7574.568	Akaike info criterion	20.81289
Sum squared resid	1.16E+10	Schwarz criterion	21.21649
Log likelihood (2013)od	-2366.482	Hannan-Quinn criter.	20.97569
F-statistic	137.8148	Durbin-Watson stat	1.927329
Prob(F-statistic)	0.000000		

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**Source: Author's Computation, 2019 (Eviews, 10)**

### **Corporate Economic Characteristics Influencing Audit Fees in the Distributive Firms in Nigeria (Hausman Test)**

Table 4.3 showed the Hausman test of corporate economic characteristics influence on audit fee in the distributive firms in Nigeria. In accordance with the decision rule to know the model to be adopted between Random Effect (RE) Model and Fixed Effect (FE) Model, this study made use of the Hausman test. According to the decision rule of Hausman test, the judgment is that if the Hausman is significant, the null hypothesis (RE Model) will be rejected. Therefore, the study revealed as shown in the table above, that Hausman test is not significant as the p-value is 1.0000. As a result, the study accepted the null hypothesis (RE Model) as most efficient for the estimate.

**Table 4.4: Corporate Economic Characteristics Influencing Audit Fees in the Distributive Firms in Nigeria (Hausman Test)**

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.000000	4	1.0000

Source: AutHo (2013)r's Computation, 2019 (Eviews, 10)

### **An Evaluation of Corporate Economic characteristics influencing Audit Fees in the selected Distributive Firms in Nigeria (Pooled OLS)**

For the purpose of analysis, Panel analysis (least square, fixed effect model, random effect model and Hausman Test) were applied to make a robust estimate of the influence of corporate socio-economic characteristics on audit fee in the selected distributive firms in Nigeria. The result of model one in Table 4.5, showed that FS and PROFIT ( $\beta = 17.2545$ ; 0.0005) have positive effect on audit fees (AUDFEE) while there is negative relationship between LEV ( $\beta = -19.53504$ ) and audit fees.

This claim is further supported by the t-stat (7.269882; 12.54078; -0.162362) which indicated that the variables were significant and insignificant for FS, PROFIT and LEV respectively. The probability value ( $\rho = 0.0000$ ; 0.0000; 0.8712) indicated that the variables are significant/ insignificant for FS, PROFIT and LEV at 1% level of significance respectively. This further shows that FS and PROFIT are determining factors with PROFIT being the best determinant when considering fees to be charged by audit firms on selected distributive firm in Nigeria.

This is in consonance with the previous findings of Griffin and Lont (2008) in the US, AL-Bastaki (2000) in Bahrain, Rusmanto and Waworuntu (2015) in Indonesia and Urhoghide and Izedonmi (2015) in Nigeria.

It is also revealed that leverage may not be considered when determining audit fee. This is in tandem with findings of Joshi and Bastaki (2000) and (2015) in Ho (2013)ng Kong, Lee (2015) in Korea and Urhoghide and Izendomi (2015) in Nigeria.

Finally, the coefficient of determination ( $R^2$ ) 0.652832 suggested that the independent variables account for over 65% of total variation in the dependent variable. This is an indication that the model is of good fit. The F-stat showed the total significance of the model with the value 105.7751 which is significant at 1% level of significance. The study rejects the null hypothesis and accept alternative hypothesis that corporate economic characteristics significantly influenced audit fees. The Durbin Watson (DW) showed that there is no autocorrelation or serial correlation in the model with the value DW 1.782941.

**Table 4.5: Corporate Economic Characteristics Influencing Audit Fees in the Nigerian**

**Distributive Firms (Pooled OLS)**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
FS	17.25447	2.373417	7.269882	0.0000
LEV	-19.53504	12.03169	-0.162363	0.8712
PROFIT	0.000542	4.32E-05	12.54078	0.0000
C	-11.35432	1.708891	-6.644264	0.0000
R-squared	0.652832	Mean dependent var		27049.69
Adjusted R-squared	0.646660	S.D. dependent var		30799.32
S.E. of regression	18307.86	Akaike info criterion		22.48955
Sum squared resid	7.54E+10	Schwarz criterion		22.56429
Log likeliHo (2013)od	-2581.298	Hannan-Quinn criter.		22.51970
F-statistic	105.7751	Durbin-Watson stat		1.782941
Prob(F-statistic)	0.000000			

**Source: Author's Computation (2019)**

#### 4.5 Relationship between Corporate Social characteristics and Audit Fees in the Nigerian Distributive Firms (FE Model)

In the efforts of determining the fixed and random effects nature of the study's model, Table 4.2 showed that board independence (BDIND) and audit firm type (AUDTYPE) have positive relationship with audit fees while board size (BDSIZE) exhibited negative relationship with audit fees in the model.

Coefficient of determination ( $R^2$ ) 0.685457 showed that the independent variables was responsible for about 69% of total variation in audit fees. This can then be considered to be above average and of good fit. Additionally, the F-stat 9.632398 is the variable that sHo (2013)wed joint significance of the model and revealed that it was significant at 1% level of significance with the prob. value of 0.000000. This simply implied that the null hypothesis is rejected while the alternative hypothesis is accepted which is clear indication that all the variables have significant influence on audit fees charged by audit firms in rendering their services to the selected firms. This result presented by the fixed effect model is most appropriate and efficient as suggested by the Hausman test.

**Table 4.6 Relationship between Corporate Social Characteristics and Audit Fees in the Nigerian Distributive Firms (FE Model)**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
BDSIZE	-2.068548	1.001842	-2.064745	0.0401
BDIND	8.707669	1.307321	6.660698	0.0000
AUDTYPE	7.699917	1.195371	6.441446	0.0000
C	45.07533	8.829490	5.105089	0.0000
Effects Specification				
Period fixed (dummy variables)				
R-squared	0.685457	Mean dependent var	27049.69	
Adjusted R-squared	0.645440	S.D. dependent var	30799.32	
S.E. of regression	249.1814	Akaike info criterion	23.14757	

Sum squared resid	1.33E+11	Schwarz criterion	23.37180
Log likelihood	-26.46971	Hannan-Quinn criter.	23.23802
F-statistic	9.632398	Durbin-Watson stat	1.949476
Prob(F-statistic)	0.000000		

Source: Author's Computation, 2019 (Eviews, 10)

#### 4.6 Corporate Social characteristics and Audit Fees in the Distributive Firms in Nigeria (Hausman Test)

Table 4.4 showed the Hausman test of determining the relationship between corporate governance and audit fee in the Nigeria distributive firms. In accordance with the decision rule to know the model to be adopted between random effect model and fixed effect model, this study made use of the Hausman test. According to the decision rule of Hausman test, the judgment is that if the Hausman is significant, the null hypothesis (Random Effect Model) will be rejected. Therefore, the study revealed as shown in the table above, that Hausman test is significant as the p-value is 0.0000. As a result the study accepted the (Fixed Effect Model) as the most efficient for the estimate.

**Table 4.7 Relationship between Corporate Social Characteristics and Audit Fees in the Nigerian Distributive Firms (Hausman Test)**

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	94.590212	4	0.0000

Source: Author's Computation, 2019 (Eviews, 10)

#### Relationship between Corporate Social Characteristics and Audit Fees in the selected Nigerian Distributive Firms (Pooled OLS)

In the conduct of Panel Least Square for the determination of the relationship between corporate governance and audit fee, Table 4.5 revealed that there is a positive relationship between BDIND, AUDTYPE ( $\beta = 84246.51, 7862.686$ ) and audit fees while there was negative relationship ( $\beta = -2333.021$ ) between BDSIZE and audit fees in the study. This simply explains that a unit increase in board size may lead to multiple percentage reduction in audit fees.

The reason here is that the larger the board size, the wider the views of board members on the audit firm to be engaged with various suggestions before final decisions are made, these discussions among board members may eventually lead to the selection of the audit firm whose fee is the least, compared to others, which have applied for the job. Despite this impression, the variable came up to be statistically insignificant with the T-stat value of -1.574331 and prob. value 0.1168. This suggested that the variable may not really be a relevant factor to be considered because of its insignificant status. Thus, it cannot be considered a serious determinant of audit fees. It is also noted that BDIND and AUDTYPE exhibited positive relationship with audit fees which meant that the variables possess the potential to improving fees charged by auditors. To buttress the coefficient, the variables came up to be statistically significant at 1% level of significance as indicated by values of its T-stat 5.688204 and prob. 0.0000. This made the variable a potent determinant of audit fee among the selected Nigeria distributive firms.

The reason for this is not far-fetch from the fact that experts believes in excellence, probity, ratings of audit firms, recognition, association and the principle of best practice which must have been taken into consideration before employing the service previous audit firm. At the end, tHo (2013)se firms that merited the contract were selected not minding the audit fees charged. As a result, some of these factors might have influenced why the variable performed the way it has performed in this analysis. The variables turned out to be statistically significant at 1% level of significance making it a dependable variable in the model. In the final analysis, the coefficient of determination ( $R^2$ ) 0.464951 was low and it revealed that the independent variables in the model could only explain 36% percent of total variation in audit fee with respect to the selected firms leaving the greater part of variation to exogenous variable not used in the model.



**Table 4.8: Relationship between Corporate Social Characteristics and Audit Fees in the selected Nigerian Distributive Firms (Pooled OLS)**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
BDSIZE	-2333.021	1481.913	-1.574331	0.1168
BDIND	84246.51	14810.74	5.688204	0.0000
AUDTYPE	7862.686	1389.759	5.657591	0.0000
C	49273.50	17203.96	2.864079	0.0046
R-squared	0.464951	Mean dependent var		27049.69
Adjusted R-squared	0.450776	S.D. dependent var		30799.32
S.E. of regression	24816.38	Akaike info criterion		23.10214
Sum squared resid	1.38E+11	Schwarz criterion		23.19183
Log likeliHo (2013)od	-2650.746	Hannan-Quinn criter.		23.13831
F-statistic	25.74574	Durbin-Watson stat		2.004337
Prob(F-statistic)	0.000000			

Source: Author's Computation, 2019 (Eviews, 10)

### Study Research Implication

The implication of this study simply that board size established negative effect on Audit Fees due to increase in board size lead to multiple reduction. Percentage in Audit Fees due to increase in board size result into increase in board members. Also, there is positive effect firm size and profit on Audit fees but negative relationship between leverages and Audit Fees as a result of this, there is decrease in Audit Fees due to effect on Leverage.

### CONCLUSION AND RECOMMENDATIONS

The study concluded that modeled corporate social and economic characteristic variables (with the exemption of leverage) have positive significant influence on audit fees charged on quoted firms within the distributive sector of Nigeria economy. It is therefore recommended that serious attention should be paid to those socio-economic characteristics, particularly leverage,

that impact on audit fees within the distributive firms in such a way that its fees reduction potential will not jeopardize audit quality.

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